

## Message Text

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ACTION EUR-08

INFO OCT-01 ARA-10 EA-06 ISO-00 H-03 SS-15 NSC-06

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FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC 6959

INFO AMEMBASSY BELGRADE

AMEMBASSY BERLIN

USMISSION BERLIN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

USINT HAVANA

USMISSION USNATO

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY WARSAW

AMEMBASSY TOKYO

AMEMBASSY PARIS

USDOC WASHDC

C O N F I D E N T I A L SECTION 1 OF 2 MOSCOW 0997

USOECD ALSO FOR EMBASSY

USDOC FOR BEWT

E.O. 11652: GDS

TAGS: EEWT, UR

SUBJECT: CODEL STEVENSON: CALL ON MINISTER OF FOREIGN TRADE  
PATOLICHEV

REF: (A) MOSCOW 937; (B) MOSCOW 866

FOLLOWING BASED ON UNCLEARED MEMORANDUM OF CONVERSATION, WHICH  
WILL BE POUCHED TO SENATOR STEVENSON.

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SUMMARY: SENATOR ADLAI STEVENSON II CALLED ON MINITER OF  
FOREIGN TRADE PATOLICHEV JANUARY 16 FOR DISCUSSION OF BILATERAL  
TRADE PROBLEMS. SENATOR EXPLAINED BACKGROUND AND INTENT OF  
STEVENSON AMENDMENT AND SUGGESTED BROAD RANGING "SALT TALKS FOR  
ECONOMICS." PATOLICHEV SAID THAT EXISTING SITUATION WILL LEAD  
TO DECLINE IN TRADE AND STRESSED NEED FOR NORMALIZATION OF

TRADE RELATIONS. HE SAID THAT EXISTING BILATERAL TRADE ORGANIZATIONS (JOINT COMMERCIAL COMMISSION AND TRADE AND ECONOMIC COUNCIL) ARE SUFFICIENT TO HANDLE BROAD QUESTIONS WHICH STEVENSON WOULD LIKE TO SEE DISCUSSED. PRACTICAL STEPS WERE NEEDED, NOT "GREAT DISCUSSIONS," IN HIS OPINION. THROUGHOUT DISCUSSION PATOLICHEV STRESSED SUPPORT OF U.S. BUSINESSMEN FOR HIS VIEWS, WHEREAS STEVENSON WARNED THAT SOVIETS SHOULD NOT OVERRATE INFLUENCE OF BUSINESS WITH CONGRESS. ASKED WHY SOVIETS WANT MFN, PATOLICHV SAID IT WAS A MATTER OF PRINCIPLE AND A QUESTION OF PRESTIGE. END SUMMARY.

1. SENATOR STEVENSON, ACCOMPANIED BY CHARGE, DAS LUERS, E/C COUNSELOR AND PROFESSOR JOHN LEWIS OF STANFORD UNIVERSITY, MET ON JANUARY 16 WITH MINISTER OF FOREIGN TRADE PATOLICHEV, WHO WAS SUPPORTED BY DEPUTY MINISTER MANZHULO, AMERICAN COUNTRIES DIVISION CHIEF ZINOV'YEV AND OTHER OFFICIALS. TALK COVERED NINETY MINUTES, AND WAS CORDIAL THROUGHOUT. ALTHOUGH PATOLICHEV CHARACTERISTICALLY DID MOST OF THE TALKING, HE REFRAINED FROM RESPONDING TO SENATOR'S STATEMENT THAT INTERNAL SITUATION IN USSR AFFECTS ATTITUDE OF CONGRESS ON TRADE MATTERS.

2. SENATOR STEVENSON RELATED BACKGROUND OF STEVENSON AMENDMENT TO EXPORT-IMPORT BANK ACT AND HIS INTENTION THAT IT FACILITATE RATHER THAN PREVENT TRADE WITH USSR. HE WAS CONFIDENTIAL

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"SURPRISED, DISAPPOINTED, DISTURBED" THAT NO ONE IN USSR KNEW THESE FACTS. WHEN PATOLICHEV ASKED IF IT WOULD HAVE BEEN POSSIBLE TO WITHHOLD STEVENSON AMENDMENT IN LIGHT OF ENACTMENT OF JACKSON/VANIK AMENDMENT, STEVESON EXPLAINED THAT HE HAD NOT WISHED TO WITHHOLD IT BUT WANTED TO RECALL JACKSON/VANIK. PATOLICHEV STATED THAT POSITION SET FORTH BY THE SENATOR WAS A "DIFFICULT ONE TO UNDERSTAND" AND SAID THAT NO ONE HAD TRIED TO EXPLAIN IT TO SOVIETS BEFORE. EVEN VANIK NO LONGER SUPPORTED THE AMENDMENT.

3. PATOLICHEV ASSERTED IT WAS "SIMPLE AND ABSOLUTELY CLEAR" THAT EXISTING SITUATION, IF CONTINUED, WOULD GRADUALLY BRING US-SOVIET TRADE DOWN TO NAUGHT. "UNDER PRESENT CIRCUMSTANCES THIS CONCLUSION CANNOT BE ESCAPED," HE SAID. "IT IS A FACT OF LIFE WHICH WE MUST RECOGNIZE." CERTAINLY BOTH COUNTRIES, "ESPECIALLY YOUR COUNTRY," MUST THINK ABOUT MATTER, HE SAID. AS PATOLICHEV WAS STARTING TO DESCRIBE SUPPORT OF US BUSINESSMEN FOR HIS POLICY OBJECTIVE OF NON-DISCRIMINATORY TREATMENT OF USSR, SENATOR STEVENSON SUGGESTED THAT MINISTER NOT PAY SO MUCH ATTENTION TO OPINION OF BUSINESSMEN, WHOSE INTEREST IS OF COURSE TO DO BUSINESS. HE EXPLAINED THAT LABOR IS MUCH MORE INFLUENTIAL THAN BUSINESS

WITH CONGRESS. THERE WERE MANY OTHER INTERESTS WHICH CONGRESS HAD TO TAKE INTO ACCOUNT, INCLUDING INTERNAL SITUATION IN USSR, MIDDLE EAST, SALT, SOVIET ACTIVITIES IN HORN OF AFRICA. HE COULD NOT PREDICT WHAT SITUATION WOULD BE, NOT BEING PRIVY TO SOVIET POLICY. NOTING CLOSE RELATIONSHIP BETWEEN JACKSON/VANIK AND MIDDLE EAST ISSUES, SENATOR SUGGESTED THAT SOVIET RECOGNITION ISRAEL WOULD HAVE DRAMATIC EFFECT ON PUBLIC OPINION IN US AND WORLD. THEN THINGS MIGHT BE POSSIBLE WHICH ARE NOT POSSIBLE NOW, SAID SENATOR, ALTHOUGH HE WAS CAREFUL TO ADD THAT ARRANGEMENTS ON MFN AND CREDIT MIGHT STILL BE CONCEIVABLE EVEN WITHOUT SUCH MOVEMENT.

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INFO AMEMBASSY BELGRADE  
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4. SENATOR STEVENSON INQUIRED WHAT SOVIET PRODUCTS WOULD BENEFIT FROM MFN AND ASKED WHY USSR NEEDS EXIM CREDIT IN VIEW OF OBVIOUS ACCESS TO LARGE COMMERCIAL CREDITS ON VERY FAVORABLE

TERMS. PATOLICHEV SAID FRENCH AND ITALIAN GOVERNMENTS WERE GIVEN CREDITS TO SUPPORT THEIR EXPORTS TO USSR. HE THEN RECITED HISTORY OF HOW GERMAN BANKS CAME TO PROVIDE CREDIT FOR NATURAL GAS/STEEL PIPE TRANSACTION. AFTER INQUIRING WHY US EXPORT-IMPORT BANK HAD BEEN ESTABLISHED, PATOLICHEV MENTIONED YAKUTSK NATURAL GAS PROJECT, WHERE HE SAID A VERY CONFIDENTIAL

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LARGE SCALE TRANSACTION WAS POSSIBLE. HE ASSERTED THAT USSR WOULD HAVE DEVELOPED YAKUTSK GAS ITSELF IF IT HAD NEEDED THESE RESOURCES FOR ITS OWN INTERNAL NEED. HOWEVER, HIS MINISTRY EXISTED TO PROMOTE FOREIGN TRADE AND IF THERE WERE INTEREST SHOWN (BY JAPAN AND US), IT COULD TRY TO MOVE MATTERS FORWARD. HE ALSO CITED JAPANESE PARTICIPATION IN "GIGANTIC" YAKUTSK COAL FIELD DEVELOPMENT WHICH, HE SAID, WOULD EARN JAPAN PRIORITY TREATMENT FROM USSR IN "WORLD COKING COAL CRISIS" WHICH HE ARGUED IS IN THE OFFING.

5. TURNING TO QUESTION OF MFN, PATOLICHEV SAID IT WAS A MATTER OF PRINCIPLE. IT WAS QUESTION OF PRESTIGE. IT CONCERNED BOTH THE US AND THE USSR. THE SOVIETS COULD NOT THINK ABOUT DEVELOPING FACTORIES AIMED AT PRODUCING FOR THE US MARKET IF THEY FACED SUCH A DISCRIMINATORY PRICE DIFFERENTIAL. MANZHULO ADDED THAT TRADE AGREEMENT CLAUSE ON MARKET DISRUPTION WOULD FORESTALL FLOODING OF US MARKET WITH SOVIET GOODS CONSIDERED SENSITIVE BY US.

6. SENATOR STEVENSON SAID HE WISHED TO CONCLUDE WITH A "HOPE" AND A "THOUGHT." HOPE WAS FOR NORMALIZED ECONOMIC RELATIONS, FOR WHICH HE SAID HE WOULD DO WHAT WAS POSSIBLE. THE THOUGHT WAS THAT WE SHOULD DEAL WITH ECONOMIC ISSUES AS COMPLEX, NOT PIECEMEAL. JACKSON/VANIK TENDED TO DOMINATE THINKING, WHEREAS MONETARY QUESTIONS, THE ROLE OF DOLLAR AND RUBLE AND A SYSTEM WHICH FACILITATES RATHER THAN ENCUMBERS TRADE SHOULD BE DISCUSSED COMPREHENSIVELY. HE SUGGESTED "SALT TALKS FOR ECONOMICS," TIMED TO PARALLEL PROGRESS ON POLITICAL QUESTIONS. MINISTER PATOLICHEV RESPONDED THAT JOINT COMMERCIAL COMMISSION CHAIRED BY HIMSELF AND SECRETARY BLUMENTHAL EXISTED, WHERE ALL SUCH ISSUES COULD BE RAISED. HE ALSO CITED TRADE AND ECONOMIC COUNCIL, REITERATING HIS SATISFACTION ABOUT FINE ATMOSPHERE

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OF LAST SESSION WHERE THERE HAD NOT BEEN ONE WORD HEARD ABOUT HUMAN RIGHTS. SENATOR STEVENSON SAID THAT IF SOVIET GOAL WAS SERIOUS NEGOTIATIONS AND NOT CASUAL TALKS, HIS IDEA

MIGHT BE WORTH CONSIDERING. PATOLICHEV REFERRED AGAIN TO EXISTING CHANNELS. IT WAS POSSIBLE TO HAVE "GREAT DISCUSSIONS" AND "DRAW EVERYTHING INTO THEM," HE SAID, BUT "EXPERIENCE SHOWS THAT WHAT WE NEED ARE PRACTICAL THINGS."

7. COMMENT: WE DO NOT TAKE TOO SERIOUSLY MINISTER PATOLICHEV'S WARNING THAT US-SOVIET TRADE WILL GRADUALLY GO DOWN TO NAUGHT, EVEN FOR NON-AGRICULTURAL GOODS. 1978 PLAN, IN FACT, SPEAKS OF INCREASE IN US-SOVIET TRADE. DECLINE IN US EXPORTS TO USSR IN 1977 WAS SUBSTANTIALLY LESS THAN THE 50 PERCENT HE FORECAST LAST JUNE. NEVERTHELESS, STANDARD MESSAGE THAT BILATERAL TRADE WILL SUFFER AS LONG AS JACKSON/VANIK AMENDMENT REMAINS VALID IS INCONTROVERTIBLE. WE HAVE LITTLE EXPECTATION THAT SOVIETS WOULD WELCOME INTRODUCTION OF INTERNATIONAL FINANCIAL ISSUES INTO OUR BILATERAL CHANNELS, BUT REMINDING THEM PERIODICALLY THAT THEY SHOULD PLAY MORE ACTIVE AND CONSTRUCTIVE ROLE IN INTERNATIONAL ECONOMIC ISSUES IS USEFUL AND SHOULD BE REPEATED ON APPROPRIATE OCCASIONS. SENATOR STEVENSON'S ADMONITION TO SOVIETS NOT TO TAKE THE VIEWS OF BUSINESSMEN TOO SERIOUSLY (ESPECIALLY WHEN EXPRESSED IN CONTEXT OF US-SOVIET TRADE MEETINGS) IS SOMETHING SOVIETS OUGHT TO TAKE TO HEART, BUT WE DOUBT THEY WILL DO SO. IN OUR VIEW, SOVIETS PREFER TO RELY ON BUSINESS "PRESSURE", REAL OR IMAGINARY, TO CHANGE OPINION OF WASHINGTON.  
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## Message Attributes

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